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SUBJECT: KAZAKHSTAN'S "BONUS SCANDAL": PUBLIC COMPANIES IN THE  
PUBLIC EYE

REF: REF A. ALMATY 3278, REF B. ALMATY 2888, REF C. ALMATY 3274

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11. (SBU) Summary: The so-called "bonus scandal," in which President Nazarbayev lashed out against the exorbitant level of salaries paid to top executives at state-owned companies, has added to the mounting criticism of the government. The media has portrayed the affair as part of Nazarbayev's effort to correct the government's errant ways. Although nominally tainted by the scandal, the newly created state holding companies Samruk and Kazyna are unlikely to be weakened. In all likelihood, the developments represent a carefully stage-managed anti-corruption move, a shift of spoils between competing elites, and flexing of presidential muscle over the control of state-owned enterprises. End summary.

#### NAZARBAYEV BREAKS THE STORY

12. (U) At the September 20 Security Council meeting, President Nazarbayev sharply criticized top management salaries at Kazakhstan's national companies. The session, parts of which were televised, saw an outpouring of what the media widely described as the President's "indignation" at the level of compensation enjoyed by top executives of some prominent national companies. Nazarbayev specifically mentioned the state holding company Samruk, Samruk's constituent company KazakhTelecom, the development fund umbrella organization Kazyna, and Kazyna's constituent Kazakhstan Development Bank.

13. (U) The brunt of Nazarbayev's anger fell on Khayrat Karibzhanov, president of the telecommunications monopoly KazakhTelecom. Addressing Prime Minister Daniyal Akhmetov, Nazarbayev demanded the dismissal of Karibzhanov, whose salary, he said, was \$364,000 a month. Among others, Nazarbayev also mentioned the former President of the Kazakhstan Development Bank Kambar Shalgimbayev (\$100,000 a month), and the head and deputy heads of Samruk (respectively, \$34,000 and \$32,500 a month). (Note: one of the two deputy heads of Samruk is Nazarbayev's son-in-law Timur Kulibayev. End note.) Karibzhanov has since been fired.

14. (SBU) "All who have lost their shame," said Nazarbayev, "must return the money to the state." Those who fail to do so, he continued, are to be put on a "special list to be published, followed by an investigation in accordance with the law." Nazarbayev gave the General Procuracy a month to investigate the issue of remuneration in national companies. Some officials, including Karibzhanov, have returned their bonuses. A Samruk insider told Econoff that at least one official of the holding company has "voluntarily" reduced his salary. Defending his organization to members of the Mazhilis (lower house of

Parliament) on September 21, Samruk Acting Executive Director Sauat Mynbayev clarified that Karibzhanov's base salary last year was, in fact, \$6,500 a month. With bonuses, it amounted to \$140,000 a month, still "incredibly high," Mynbayev said, but not as high as the monthly sum of \$365,000 announced by Nazarbayev.

SAMRUK AFFECTED...

15. (SBU) According to the Samruk insider, Karibzhanov's 2005 compensation was determined by a long-standing mechanism which set aside a bonus pool based on the company's profitability. By "effectively taking advantage of its monopoly power," he said, KazakhTelecom has, indeed, been very profitable. According to press reports, KazakhTelecom and KazMunaiGas, the state oil & gas company, together accounted for 99% of Samruk's 2005 income. (Note: Established in January 2006, Samruk currently holds the assets of KazakhTelecom, KazMunaiGas, the post office KazPost, the railroad Kazakhstan TemirZholy, and the Kazakhstan Electrical Grid Operating Company, KEGOC. See Ref A. End note.)

16. (SBU) The Samruk insider further told Econoff that the scandal reflects Samruk's failure to date to establish effective reporting channels with constituent companies. The companies under the Samruk umbrella did not inform the Samruk management of incoming official inquiries on executive salaries, he said. Samruk, the insider added, had intended to review the salary issue but was upstaged by the scandal. He expressed some concern that, in the short term, the scandal represents a public relations blow to the still-young Samruk.

...BUT NOT DAMAGED...

17. (SBU) Observers, however, have not blamed Samruk and Kazyna for the salary debacle. Media coverage has portrayed the emergence of the salary issue as part of President Nazarbayev's drive to fight corruption and clean up the government, particularly in the wake of the HIV infection scandal in South Kazakhstan (Ref B). In both scandals, much blame has been

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directed at the government but not at the Presidential Palace. Nazarbayev's decision to raise the issue in a very public forum has further fueled media speculation that the government's days may be numbered. In power for three years as of June 2006, Daniyal Akhmetov is the longest-serving prime minister in the history of independent Kazakhstan.

...AS BIGGER CHANGES MAY BE AFOOT

18. (U) Talgat Mukashev, an observer writing for a Russian-based website centrasia.org, views the bonus scandal through the prism of an emerging "new hierarchy of economic power in the country."

Citing ample talk of creating additional state holding companies, he sees a drive toward consolidation of key economic assets. (Note: A new agricultural state holding company, KazAgro, is in the works, per Ref C. There is also discussion of forming a metallurgical state holding company. End note.) The bonus scandal, according to this view, is a shift in the balance of power between various elite groups competing for control of the assets. In particular, Mukashev sees PM Akhmetov's government losing control over state-owned companies.

(Comment: Post sees a possible connection between this development and reported plans to strengthen the power of Parliament and the government. It is too early, however, to definitively judge the cause-and-effect relationships, if any. End comment.)

19. (SBU) Karibzhanov's ouster comes amid other changes at KazakhTelecom. In the wake of Samruk's creation, the company's entire board of directors was replaced in June, with the exception of Karibzhanov himself. Furthermore, there is much discussion of a staged privatization of KazakhTelecom through initial public offerings, both on the Kazakhstani Stock Exchange (KASE) and abroad.

¶10. (SBU) Comment: Although the bonus scandal has nominally impacted Samruk and Kazyna, it is unlikely to weaken these institutions. Only recently created, Samruk and Kazyna are currently at the core of the GOK's key economic policies, the former for bringing efficiency and transparency to state-owned enterprises, the latter for diversifying the economy away from energy. With plans underway to bring more state-owned companies into Samruk and direct more government resources toward economic development in the non-energy sector (presumably through Kazyna), it is likely that both institutions will continue to grow in importance. The current shake-up may continue the trend of more Samruk insiders being appointed to key positions at Samruk's constituent companies. This should strengthen the holding company's ability to implement changes within its components and help prevent reporting breakdowns such as the constituent companies' recent failure to inform Samruk of the government's salary inquiries. End comment.

MILAS